

## Some Regulatory Changes Underway; Others Still to Be Enacted

*A major overhaul of Federal regulations is underway. Recent regulatory changes that promise to have the greatest effect on rural areas include those involving credit institutions, natural resources and the environment, and electricity and telecommunications. Many, although not all, of these changes involve deregulation.*

The 104th Congress kicked off its effort to deregulate the economy and reinvent the Federal regulation-making process, beginning in early 1995 with the unfunded mandate legislation that makes it more difficult for Congress to create new regulations that impose significant costs on State and local governments without compensating them with additional Federal funds. The Telecommunications Act of 1996 represents the most significant deregulation legislation passed by Congress thus far. Many other major regulatory changes were proposed. Some were enacted, others were not, but may be considered in the future. This latter category includes the regulatory reform bill that would make it more difficult to establish new Federal regulations, the regulatory flexibility bill that would ease regulations on small businesses, the proposed overhaul of labor safety regulations, the reform of environmental laws, and legal reform. Nevertheless, many changes in rules and regulations have already been brought about in the last year, some by Congress, others by the administration or the courts, and some may significantly affect rural areas. Not all of these changes involve deregulation.

### **New Regulations Lead to Significant Changes in Credit Available to Rural Areas**

In 1995, the Federal Reserve Board and the other bank and savings and loan regulators revised the regulations for the Community Reinvestment Act (CRA), which encourages banks and savings and loans to help meet the credit needs of their communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations. CRA's regulations were revised to increase lending in underserved areas while reducing regulatory costs for affected financial institutions. Revised regulations went into effect in January 1996, making it easier for small financial institutions to comply with CRA exams. Large financial institutions are not required to be tested under the new CRA exams until July 1997, although they had to begin collecting new loan data on January 1, 1996. Revised rules require larger banks to report separately small business lending data for their rural market areas. These changes may encourage an increase in rural lending in places served by large banks and reduce compliance costs for small banks serving rural areas.

To provide additional incentives to banks and other institutions that provide credit to low-income areas, Congress enacted a modified version of a Clinton administration initiative to fund a series of community development financial institutions (CDFI). CDFI funding was set at \$382 million over 4 years, but actual obligations have been well below authorized funding levels. One-third of the funds are meant to go to existing banks as rebates of deposit insurance premiums for doing a good job of servicing low-income areas. The CDFI legislation also reduces the regulatory burden for banks. This may help rural banks lower interest rates on loans and sell loans to other investors, and it leaves rural bankers with more time to make loans.

Proposed, but not enacted, were major revisions to the Glass-Steagall Act. This act limits bank activity in the insurance and securities industries. If Glass-Steagall is altered significantly, it could open up access to a wide array of bank financial services that could benefit nonmetro areas.

The Farm Credit System Reform Act, signed into law in February 1996, reforms both the Farm Credit System (FCS) and the Federal Agricultural Mortgage Corporation (Farmer Mac), two Government-sponsored enterprises (GSE's) that provide credit assistance for agricultural and rural housing borrowers. This legislation decreases the regulatory burden for FCS institutions, which should lower their operating costs and could be passed along to agricultural borrowers in the form of lower cost credit. The Farm Credit Administration, which oversees FCS, proposed additional changes that would allow FCS to increase its

lending to nonfarm rural housing, processing and marketing operations, and farm-related businesses.

Farmer Mac, which provides a secondary market for agricultural real estate and home mortgages, has been modified in an attempt to lower costs, grant regulatory relief from higher pending capital standards, and provide guidelines for recapitalization. Farmer Mac's new charter allows it to purchase loans directly from lenders and either hold purchased loans in portfolio or sell them as mortgage-backed securities.

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are the GSE's that are the major intermediaries in the secondary market for home mortgages. Their principal activity is purchasing home mortgages from lenders, grouping these into mortgage pools, and issuing financial securities for shares of income streams generated by these pools. This allows them to reduce risk and associated interest costs for home loans.

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 required both of these GSE's to meet specific goals, including the goal that they should focus more activity in "housing located in central cities, rural areas, and other underserved areas." HUD was given oversight authority, and it recently set the goal that 24 percent of the dwelling units financed by both of these GSE's should be in underserved areas. HUD defined 1,511 of the Nation's 2,305 nonmetro counties (having 54 percent of nonmetro population) as underserved. As of 1994, only 8.7 percent of Fannie Mae's loans and 13.4 percent of Freddie Mac's had been in these underserved areas, thus GSE housing assistance to underserved rural areas may be expected to substantially increase in the future in order to meet the 24 percent goal. *[George Wallace, 202-501-6751, gwallace@econ.ag.gov, and Jim Mikesell, 202-219-0098, mikesell@econ.ag.gov]*

### **Environment and Natural Resources Regulations Beginning to Change**

Regulations covering the environment and natural resources were a topic of much debate in 1995 and 1996. Although Congress has proposed to reduce or alter most environmental regulations, many regulatory issues were unresolved, including those involving the Superfund for hazardous wastes, the Clean Air Act, the Clean Water Act, the Coastal Zone Management Act, the Endangered Species Act, and the Atlantic Striped Bass Conservation Act.

Some significant changes have already been enacted covering natural resource management. The 1995 rescissions act, for example, required the Forest Service to accelerate its logging of dying and diseased trees. This act also waived compliance with certain environmental regulations and insulated timber sales from some legal challenges. These changes will particularly affect the Pacific Northwest and northern California. The recent Omnibus Spending Act of 1996, however, gave the President the option to waive additional timber cutting in Alaska's Tongass National Forest. This legislation also allowed the President to ignore the moratorium that Congress earlier imposed on additions to the endangered species list.

The General Mining Law of 1872 that regulates the exploration and extraction of minerals from Federal lands has been targeted for reform by those who want to end the sale of Federal lands and increase fees on mining companies and impose stricter mine reclamation requirements. To date, action on these goals has been generally limited to a continuation through fiscal year 1996 of the moratorium on land patents under the 1872 General Mining Law, which lets companies take possession of mineral-laden public lands for as little as \$2.50 per acre and a continuation of the long-standing moratorium on offshore oil and gas leasing.

EPA has revised some of its policies to provide more flexibility for environmental enforcement for small communities (under 2,500 residents). For example, in its November 1995 Policy on Flexible State Enforcement Responses to Small Community Violations, EPA expressed its support for State flexibility in using compliance incentives for small communities. This policy recognizes that environmental benefits can be achieved by negotiating

with communities and entering into legal agreements that specify a reasonable timetable for compliance in exchange for relief from EPA penalties. Another EPA ruling that could significantly affect rural areas, particularly corn-growing areas that provide inputs to ethanol production, involves provisions of the Clean Air Act that require the use of reformulated gasoline in areas with high levels of air pollution. In March 1996, EPA raised the maximum level of ethanol allowed in reformulated gasoline—from 7 to 10 percent. [*Cecil Davison, 202-501-6716, cdavison@econ.ag.gov; Walt Gardiner, 202-219-0545, wgardiner@econ.ag.gov; Rick Reeder, 202-219-0551, rreeder@econ.ag.gov*]

### **Telecommunications and Electric Industries Are Being Deregulated**

On February 8, 1996, President Clinton signed into law the Telecommunications Act of 1996. The legislation is the first comprehensive rewrite of the Communications Act of 1934 and covers five major areas: telephone service, telecommunications equipment manufacturing, cable television, radio and television broadcasting, and the Internet and online computer services. In each of these areas, the act relaxes concentration and merger rules, eliminates cross-market entry barriers, and assigns new implementation obligations to the Federal Communications Commission (FCC). The act, as a result, modifies previous legislation, such as the Cable Act of 1992, and judicial actions, such as the early 1980's consent decree in the breakup of American Telephone and Telegraph (AT&T). The ultimate purpose of the act is to allow much quicker adoption of new technology and discontinuance of outmoded technology. U.S. West's proposed purchase of Continental Cablevision is the first major restructuring in the telecommunications industry to result from the legislation.

For rural areas, the act's provision calling for universal service is most critical. Universal service denotes the type of telecommunication service that must be provided to everyone at some maximum cost to the purchasers of the service. The new legislation ushers in a new standard for universal service and, for the first time, allows the definition of universal service to evolve (without further legislation) so that there can be more ready adaptation to future changes in technology and market. The act, however, does not set the new standard, but provides for a Federal-State Joint Board that will be appointed by the FCC to determine what will constitute universal service. The Federal-State Joint Board will make recommendations to the FCC by November 1996. The FCC will issue its order on universal service during May 1997.

Since the breakup of AT&T in the early 1980's, the Universal Service High Cost Fund covered the subsidy for universal service. All long-distance telecommunications providers contributed to the fund. The new act requires all telecommunication providers to contribute to a fund that will subsidize the provision of universal service. As a consequence, it is foreseeable that some time in the future Internet access may become part of universal service, and Internet access providers may be required to contribute to the universal service fund. Without knowing what will constitute universal service, however, no determination can be made as to who in rural areas will benefit from the law, who will pay for the subsidy, how much they will likely pay, and myriad related questions.

Another potentially far-reaching regulatory change involves the electric industry. Since the passage of Energy Policy Act of 1992, the Federal Energy Regulatory Commission has required public utilities to open their transmission lines and lease them to competitors, which should enable more utilities to sell power across State boundaries and beyond their traditional service areas. New rules, proposed in April 1996, would change the way electricity is sold at the wholesale level. New energy service companies are expected to become efficient middlemen in buying electricity from producers and selling it to consumers. Legislation has been proposed that would expand deregulation to cover the retail market, requiring utilities to give customers a choice of electricity providers by the year 2000. These new rules are aimed at improving efficiency and lowering rates by increasing competition among electric utilities and independent wholesale power generators. Some States have already moved to deregulate the electric industries within their States, but Federal regulations are required to deal with interstate issues.

How this will affect rural areas is unclear. [Peter Stenberg, 202-219-0543, [stenberg@econ.ag.gov](mailto:stenberg@econ.ag.gov), and Rick Reeder, 202-219-0551, [rreeder@econ.ag.gov](mailto:rreeder@econ.ag.gov)]

### Some Other Regulatory Changes Have Rural Implications

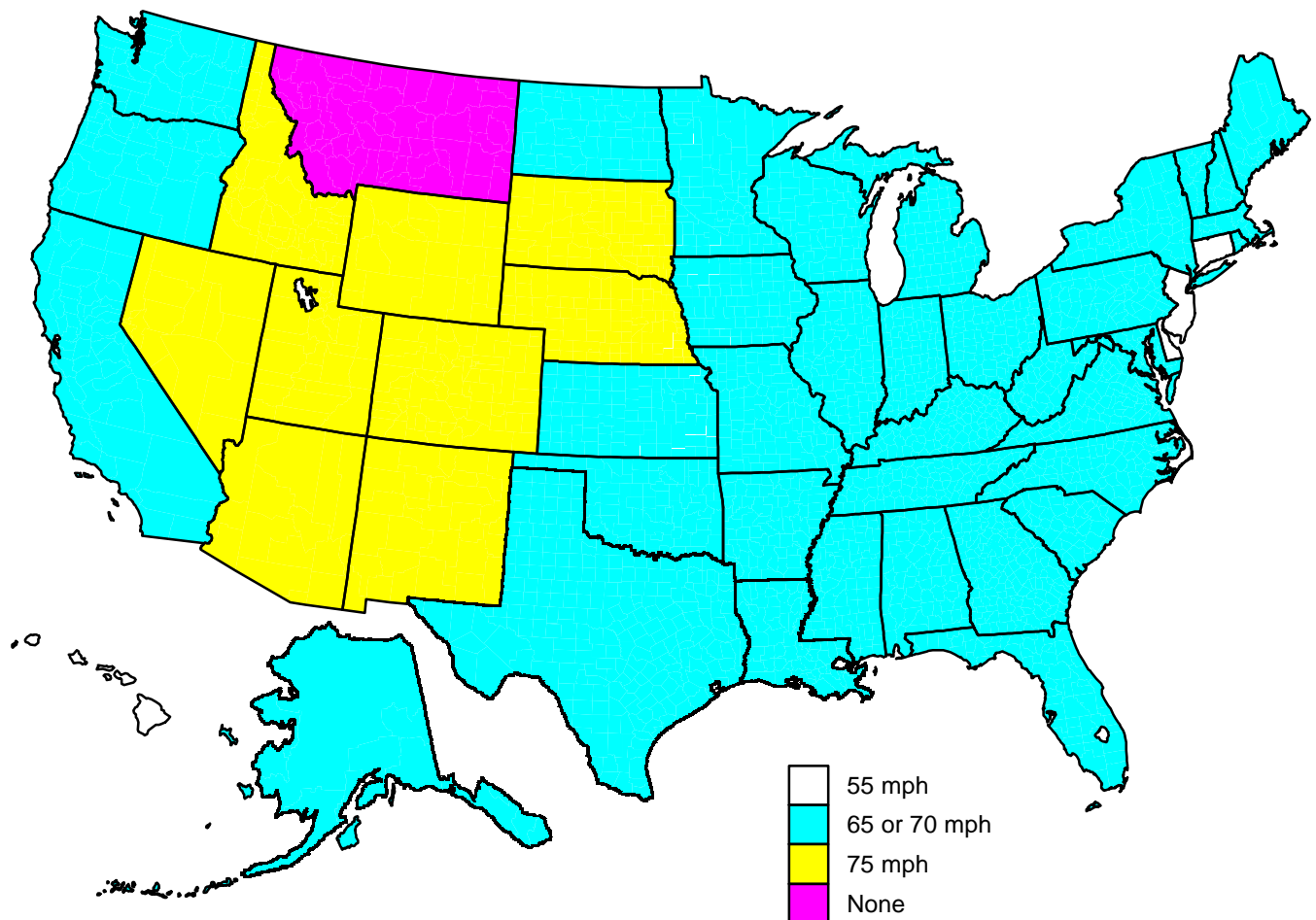
The legislation that created the 161,000-mile National Highway System, P.L. 104-59, allows States to increase their maximum speed limits. This is expected to reduce travel time to many rural areas and may make many remote rural counties more economically competitive, especially in parts of the West, where significantly higher limits have already been adopted (fig. 1).

The March 1996 Supreme Court ruling in *Seminole Tribe of Florida v. Florida* limited the ability of Indian tribes to sue States over tribal rights to set up gambling operations. This could limit the growth of the Indian gaming industry in States that oppose this activity. Indian gambling operations have helped foster a greater degree of economic self-suffi-

Figure 1

### New maximum daytime speed limits, by State, as of May 7, 1996

*Limits are highest in the Mountain States and parts of the Upper Plains*



Source: Calculated by ERS using data from the American Automobile Association.

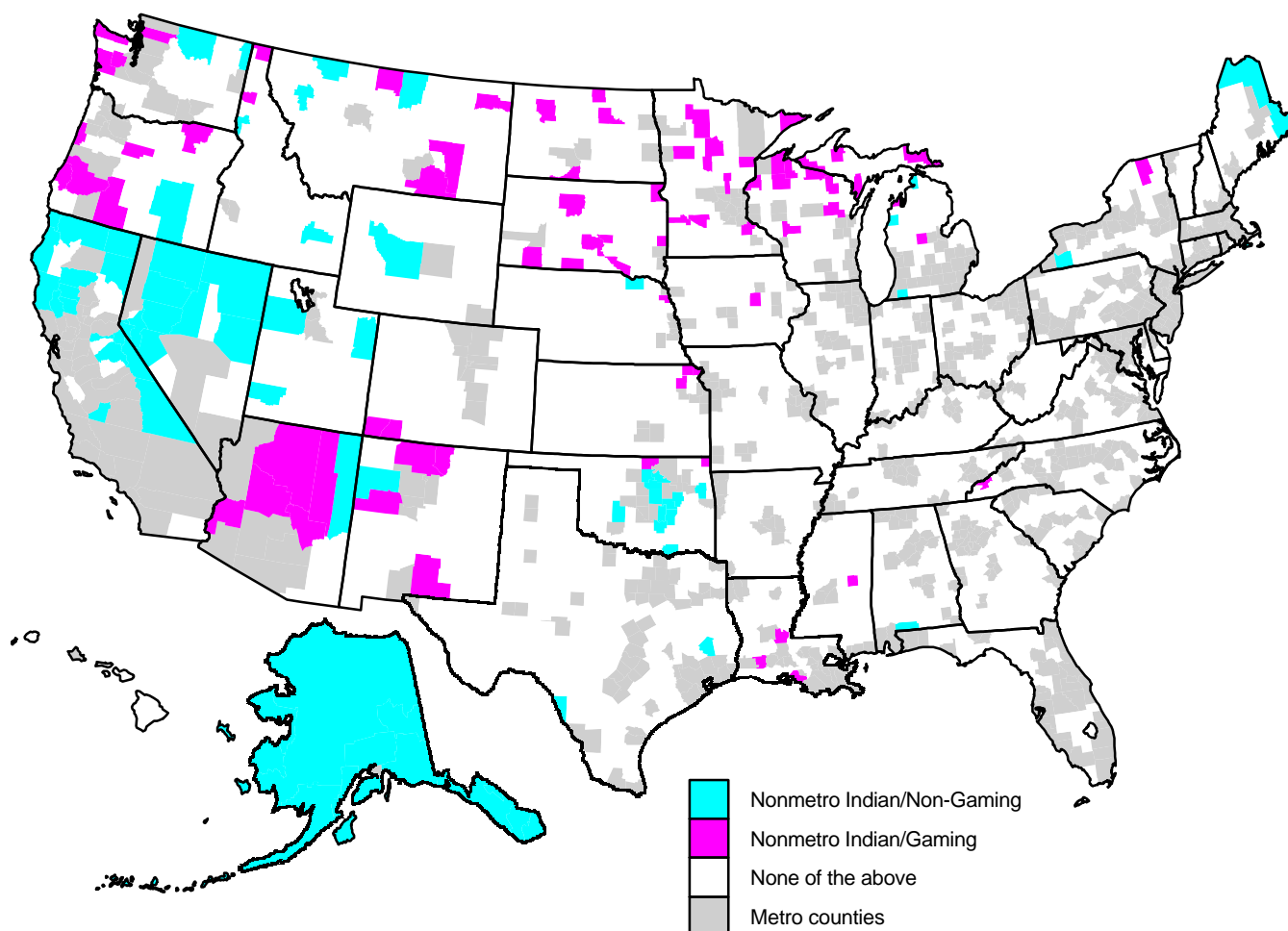
ciency for Native Americans by providing them with a major new source of income and employment. Less than one-fourth of about 560 federally recognized tribes engage in gaming operations, and of these, only about 20 are actually doing well by such activities. Indian gaming is most prominent in the Southwest, the Pacific Northwest, the Upper Plains, and the Midwest (fig. 2).

In January 1996, legislation was enacted that will prevent States from taxing retirement earnings of former State residents. In the past, some States, such as California, have applied source taxes to retirement income generated in the State to raise additional revenues and discourage the outmigration of wealthy retirees, many of whom move to lower tax rural areas. This change might therefore be expected to increase future migration from high-tax urban States to low-tax rural States that are popular retirement destinations. [Dennis Brown, 202-219-0329, [dennisb@econ.ag.gov](mailto:dennisb@econ.ag.gov), and Rick Reeder, 202-219-0551, [rreeder@econ.ag.gov](mailto:rreeder@econ.ag.gov)]

Figure 2

**Nonmetro counties with one or more federally recognized Indian Tribes and their gaming status, as of December 1995**

*Nonmetro gaming operations are most common in the southwest, the Pacific Northwest, the Upper Plains, and the Midwest*



Note: Each tribe's location is based on the mailing address of its tribal leader.  
Source: Calculated by ERS using data from the Bureau of Indian Affairs.